Crown Corporation
BUSINESS PLANS
FOR THE FISCAL YEAR 2010–2011

Nova Scotia Municipal Finance Corporation
Business Plan 2010–2011

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Message from the Minister and the Chair

As the Minister of Service Nova Scotia and Municipal Relations, I am the minister responsible for the Nova Scotia Municipal Finance Corporation. The Nova Scotia Municipal Finance Corporation (NSMFC) is a crown corporation of the Province of Nova Scotia. The NSMFC was established by the Municipal Finance Corporation Act of the Legislature of the Province of Nova Scotia in 1979 and began business in January 1980.

The corporation's purpose is to provide the lowest available cost financing to its clients, which include municipalities, municipal enterprises, school boards, and hospitals. All municipalities and municipal enterprises must finance their external capital requirements through the corporation. Currently, most school board and hospital capital expenditures are financed directly by the Province. The Municipal Finance Corporation concept is widely used in Canadian provinces as a cost-effective, efficient means of raising long term debenture funds to finance municipal capital projects.

The NSMFC is forecasting to have over $728 million in debentures outstanding at March 31, 2010. New debenture issues in 2010-2011 are estimated to be in the range of $137 million, which will be balanced against debenture retirements of $91 million in 2010-2011.

The corporation is governed by a board of directors appointed by the Governor-in-Council. Legislation requires that 40 per cent of the board be appointed on the recommendation of the Union of Nova Scotia Municipalities. Three full-time staff of the corporation are supported through staff and resources from the provincial Departments of Finance, Justice, and Service Nova Scotia and Municipal Relations.

In July 2008 the NSMFC conducted a survey of its clients seeking feedback on whether or not the NSMFC was fulfilling its mandate and meeting its clients' needs, as well as seeking input on the direction municipalities would like the NSMFC to take in the future. The results of that survey reaffirmed that the NSMFC is meeting its core business of providing the lowest available cost of financing for municipal infrastructure projects and supported the direction that the NSMFC is moving toward—which is the development of programs and models that help build financial management knowledge in municipal governments. The results from the survey are used as baseline data for a number of the performance measures and outcomes detailed in the business plan.

The Honourable Ramona Jennex
Minister

Kevin Malloy, CA
Chair

Mission

To provide capital infrastructure financing to its clients at the lowest available cost, within acceptable risk parameters, and to provide financial management advice and assistance to clients.

Link to Municipal and Departmental Priorities

The NSMFC's contributions to the municipal and departmental priorities are in the area of infrastructure objectives that contribute to the creation of economic opportunities and building safe and sustainable communities. NSMFC loans are used to finance sewage treatment plants, solid waste facilities, and water services that promote clean and healthy communities. Loans are made to finance streets, buildings, recreation services, and the purchase and development of land, all of which contribute to safer, healthier communities. By working with municipalities to develop recommended financial management practices and adopt North American standards in budget presentation and financial reporting, the NSMFC contributes to the development of winning conditions.

Planning Context

The Corporation faces a number of challenges and opportunities in meeting its strategic goals in the upcoming year.

- The NSMFC must ensure that it has access to capital markets and that it has the financial and administrative ability to meet municipal government demand for capital infrastructure funding. Market sentiment in capital markets improved late in 2009 and into early 2010. However, given the challenges being experienced by many countries confronted with rising budgetary deficits and debt levels, capital market conditions remain uncertain. Municipal issuers may very well experience deteriorating financial conditions over the upcoming year. Capital markets have been unsettled during the past year and are expected to remain that way during the current year; this will pose challenges for municipal debt issuers.
- The NSMFC must keep abreast of developments in municipal government capital finance. As a specialist organization, the NSMFC is challenged to develop, maintain, and demonstrate expertise in municipal government capital finance.
- The NSMFC must maintain financial self sufficiency. In order to meet its mandate, the corporation must remain economically viable in both the short

and long term. This includes matching assets and liabilities to both amount and maturity and maintaining banking arrangements and credit facilities, credit risk, adequate reserves, and the ability to manage administration expenses within its budget.

- The NSMFC must identify client needs and respond to them. Opportunities exist to assist municipal governments in Nova Scotia with long-term capital planning and financing options. There is also an opportunity to work with local governments to achieve North American standards in municipal financial management capacity through the adoption of recommended practices and meeting professional standards in budget presentation and reporting.
- Opportunities also exist to develop partnerships with organizations such as the Federation of Canadian Municipalities to provide a conduit for low-cost loans for clients.

The major risks to the corporation are reduced capital market receptiveness to smaller serial debt issues and the availability of human and financial resources needed to carry out its mandate. Some resources are directly under the control of the board, whereas others are provided by provincial departments. The NSMFC will continue to work with these provincial departments to align both sets of priorities.

Strategic Goals

The NSMFC's strategic goals are designed to assist the municipal and departmental priorities in the area of infrastructure objectives, which contribute to the creation of economic opportunities and to building safe and vibrant communities. Capital infrastructure is a major component of economic development in both attracting and retaining business investment and promoting communities that are attractive places to live.

The following strategic goals have been developed to assist the NSMFC in meeting its mission of providing the lowest available cost of financing for municipal capital infrastructure and long-term financial planning and support for infrastructure, economic, and community priorities.

- To provide capital infrastructure financing to our clients at the lowest available cost, within acceptable risk parameters, to meet their particular debt structure and timing needs.
- Ensure access to capital markets through prudent management of all financial aspects of the corporation, including credit risk and asset/liability management.
- To help build financial management knowledge in municipalities and promote municipal capital project planning and financing.

Core Business Areas

A. Providing capital financing at the lowest available cost

- Provide financing for clients' approved funding requirements through the issuance of pooled debentures. Pooling of capital requirements allows the NSMFC to issue debentures in capital markets at rates lower than if single issues were placed for clients.
- Provide financing options for clients through the short-term loan program.
- Facilitate and participate in loans to municipalities from financing sources such as the Federation of Canadian Municipalities Green Fund where funding is available for projects meeting established criteria at below-market rates.
- Develop and review policies regarding the corporation's use of financial innovation techniques and instruments.

B. Prudent financial management of the corporation to ensure access to capital markets

- Ensure that an acceptable process is in place for evaluating the creditworthiness of the loans made by the corporation.
- Ensure that the corporation's assets and liabilities are closely matched in both amount and maturity.
- Administer the corporation's financial resources prudently to ensure that the corporation's administrative expenses and reserve balances are within approved policies.
- Adhere to generally accepted accounting practices for the valuation of financial instruments.

C. Helping build municipal financial management knowledge by encouraging municipal governments to develop and maintain a long-term strategic approach to capital project planning and finance

- Partner with municipal clients, Service Nova Scotia and Municipal Relations, and the Association of Municipal Administrators (AMA) on the topic of capital planning and finance through the identification of relevant professional association resources.
- Develop best practices and models to help build financial management knowledge in municipal government. Encourage Nova Scotia municipalities to apply for Government Finance Officers Association (GFOA) financial reporting and budgeting awards.

- Maintain links with the investment community, public sector finance practitioners, and academics and carry out research as required to enable the corporation to respond to changing client needs.

Priorities for 2010–2011

The following details the actions, products, and services that the NSMFC intends to carry out in order to fulfill the corporation's mission and meet its strategic goals.

A. Provide capital financing at the lowest available cost

- By issuing pooled debentures for the approved amount required to meet municipal borrowing requirements and lending a similar amount to municipal units and enterprises. New debenture issuance is expected to be in the $137 million range; this is balanced against retirements of existing debenture in 2010–2011 of approximately $91 million.
- Pooling of capital requirements allows the NSMFC to access capital markets and achieve pricing based on the Province of Nova Scotia credit spreads.
- Facilitate and participate in loans to municipalities from the Federation of Canadian Municipalities Green Fund where funding is available for projects meeting established criteria at below market rates.

B. Prudent financial management of the corporation to ensure access to capital markets

- Obtain verification of credit worthiness from the Department of Service Nova Scotia and Municipal Relations (for municipal borrowers) prior to setting the parameters for pooled issues.
- Match the amount, term and timing of NSMFC debentures and loans to units.
- Management of the NSMFC's financial resources (budget and reserves) as per policies established by the Corporation's Board of Directors.
- Adherence to generally accepted accounting practices for the valuation of financial instruments

C. Helping build municipal financial management knowledge by encouraging municipal governments to develop and maintain a long-term strategic approach to capital project planning and finance.

- Continue to assist in a leadership role in the Municipal Finance Officers group initiative to promote financial and budgeting policies to municipal governments in Nova Scotia.

- Develop a training program designed to promote effective and efficient financial management.
- Implement a marketing and promotion strategy to encourage municipal adoption of practices recommended by professional bodies.
- Promote the municipal use of the Debt Affordability Model, and provide technical support for municipal administrators. The Debt Affordability Model is a tool for use by municipal councils to help answer the question of how much debt is too much debt for their municipal unit. The model can also be used by municipalities for multi-year budgeting and forecasting and analysing revenue and expenditure options.
- Establish committees, as required by the board, to study the merits of new products and services and alternate ways to meet municipal capital borrowing requirements.
- Work with the corporation's lead managers and other members of the investment community, staff of the Nova Scotia Department of Finance, other municipal finance corporations, and others involved in municipal capital financing to identify evolving municipal government financial needs and the optimum means of satisfying them.

Human Resource Strategy

Organizations with small staff are challenged when developing human resource strategies, particularly in the area of succession planning, as the skills requirements for the corporation's positions are diverse. The board's strategy has been to develop and retain existing staff and to build capacity by involving other civil servants in the operation of the MFC through corporate officer positions and secondment opportunities. Development and training opportunities are made available to existing staff to enable them to stay abreast of developments in the industry. The corporation's human resource strategy is aligned with the government resource strategy.

Budget Context

Nova Scotia Municipal Finance Corporation Estimated Budget Expenditures

	Budget 2009–10 ($ 000)	Forecast 2009–10 ($ 000)	Budget 2010–11 ($ 000)
Total program expenses—(gross current)	550.8	333.2	439.3
Net program expenses—(net of recoveries)*	0.0	0.0	0.0
Salaries and benefits—(gross)	363.6	181.0	253.7
Funded staff (FTEs)—(gross)	4	4	3

* Note: The NSMFC is completely self-funded. The costs of administration are covered through an administrative fee that is levied on all municipal loans and from interest revenue earned on short-term investments.

Nova Scotia Municipal Finance Corporation Balance Sheet as at March 31, 2009 (Audited)

Assets

Current Assets:	($)
Cash and cash equivalents	6,290,680
Accrued interest receivable	11,020,057
Other receivables	15,016
Principal due within one year on loans to units	95,508,362
Long term Assets:	
Loans to units beyond one year	614,115,611
Total Assets	726,949,932

Liabilities and Equity

Current Liabilities:	
Accounts payable	72,209
Accrued interest payable	11,017,720
Principal due within one year on debenture debt	95,569,267
Employee obligations	50,139
Long term Debt:	
Debentures payable beyond one year	614,086,421
Equity	
Reserve Fund	6,154,176
Total Liabilities and Equity	726,949,932

Statement of Revenue, Expenses, and Reserve Fund year ended March 31, 2009 (audited)

Revenue	**($)**
Interest on loans to units	35,059,329
Interest on short-term investments	150,508
Debenture expense recoveries and reserve fees	792,878
Sales of services	0
Total Revenue	36,002,715
Expenses	
Interest on debenture debt and short-term loans	35,061,085
Debenture issue expense	348,664
Administrative expense	379,272
Total Expenses	35,789,021
Net Revenue	213,694
Reserve Fund, Beginning of Year	5,940,482
Reserve Fund, End of Year	6,154,176

Outcomes and Performance Measures

Core Business Area 1 *Providing capital financing at the lowest available cost*

Outcome	Measure	Data *(2008 survey results form % baseline data)*	Target 2010–11	Target 2011–12	Strategies to Achieve Target
To provide the lowest available cost of financing to clients in a timely manner	Percentage of clients that are satisfied with the timing and processing of debenture issues:				Monitor alignment of debenture issues with the construction completion schedule and capital budgeting process
	• Regional municipalities	50%	100%	100%	
	• Rural municipalities	67%	90%	90%	
	• Towns	83%	90%	90%	
	Percentage of clients that agree that the debenture terms and structure are flexible enough to meet their needs:				Promote short-term financing program Work with municipal units on financing options (payments and term) Communicate options through the use of web page and consultations
	• Regional municipalities	50%	100%	100%	Use e-mail to inform municipal CFOs and CAOs of MFC rates and products
	• Rural municipalities	86%	90%	90%	
	• Towns	89%	90%	90%	
Lowest available cost of financing for clients	Quality of credit loans	Procedures ensure creditworthiness of loans	Regular review of loan procedures	Regular review of loan procedures	Maintain quality of portfolio Promote profile of NSMFC credit quality to maintain strong relationship with government to ensure its support of provincial guarantee
	Pricing received from lead managers in relationship to the Province of Nova Scotia's cost of funds	Provincial guarantee allows the MFC to price off the PNS spread	Maintain access to the provincial guarantee	Maintain access to the provincial guarantee	

Core Business Area 2 *Prudent financial management of the corporation to ensure access to capital markets*

Outcome	Measure	Data *(2008 survey results form % baseline data)*	Target 2010–11	Target 2011–12	Strategies to Achieve Target
Ensure that a sustainable source of funding is available to finance requests from clients and to ensure the operational viability of the corporation	Client default rate (default is defined as failing to make a principal or interest payment within five days of the due date)	0	0	0	Ensure that all loans are creditworthy Monitor creditworthiness procedures and loan payment processes
	Matching of assets and liabilities Matching of aggregate amounts, terms, and timing of debentures and loans	Assets and liabilities are closely matched to term and timing	Maintain matching strategy	Maintain matching strategy	Match the term and timing of NSMFC debentures and loans to clients
	Adoption of a risk management strategy	n/a	Monitor plan	Monitor plan	Review and revise plan as necessary

Core Business Area 3 *Helping build financial management knowledge by encouraging municipal government to adopt and maintain a professional and long-term strategic approach to capital project planning and finance*

Outcome	Measure	Data *(2008 survey results form % baseline data)*	Target 2010–11	Target 2011–12	Strategies to Achieve Target
NSMFC client awareness of new financial products and features that may help municipal units	Percentage of municipal units that are aware of and satisfied with products offered by NSMFC. Regional municipalities (3) Rural municipalities (21) Towns (31)	 100% (2) 80% (6) 80% (18)	 100% (3); 95% (20); 95% (25);	 100% (3); 95% (20); 98% (30);	Regular communication with clients on the programs that NSMFC is offering through AMA regional meetings and conferences and MFC web page One-on-one calls and visits to clients to offer advice and assistance
Development and implementation of products and services to respond to client needs	Effective programs directed at clients' needs	Requests for program development: • Long-term planning models • Enhanced financial management practices • Innovative financing • Educational programs	Development of programs that meet client needs Visit 6 municipalities promoting the debt affordability model Common sizing of half our municipal clients' income statements	Development of programs that meet client needs 6 visits for the debt affordability model Common sizing of remaining clients	Continue partnering with AMA, municipal units, and SNSMR Promote debt affordability model Maintain links with professional associations Work with FCM on financing opportunities for municipal projects Engage graduate summer intern in research / activities that would benefit municipalities and MFC Continue to work closely with SNSMR Municipal Advisors

Core Business Area 3 *Helping build financial management knowledge by encouraging municipal government to adopt and maintain a professional and long-term strategic approach to capital project planning and finance*

Outcome	Measure	Data *(2008 survey results form % baseline data)*	Target 2010–11	Target 2011–12	Strategies to Achieve Target
Use of best practices (BP) in financial management decision making	Increased awareness of best practices for financial management Based primarily on GFOA (Government Finance Officers Association) programs Municipalities develop and showcase best practices	62% of clients are aware of knowledge-building programs offered by the NSMFC	Post best practices and information on municipal international financial standard awards on the website 70% awareness level	80% awareness level	Regular communication with clients on the work NSMFC is involved in through AMA regional meetings and conferences and MFC web page partnerships One-on-one calls and field visits to clients to offer advice and assistance UNSM/AMA Newsletters; MFC newsletter on various financial matters Circulating all BPs developed to municipalities in hard-copy format
Increased financial management knowledge in municipal units	Broader access to financial resources—efficient use of resources and building of networks among financial administrators		Municipal staff training through workshops offered by a consultant	Municipal staff training through workshops offered by a consultant	Exposure to conferences that develop and promote best practices in financial management Continuing to offer financial assistance in sponsoring municipal attendance at annual GFOA conferences GFOA award information added to MFC website Active participation in joint committees with AMA MFC's Outcome Measurement pamphlet